

**Some Evolutionary Developments
in Life Insurance**

AN ADDRESS

Delivered before the Ninety-third Meeting

OF

The Insurance Society of New York

ON

Tuesday, January 27th, 1914

BY

Mr. GEORGE W. JOHNSTON

President, The Johnston & Collins Company



The Insurance Society of New York

FREDERIC C. BUSWELL, President



MARCH 1914 DATES

March 10th—(Round Table Order)

“Grain Elevators”

Mr. J. E. Curtis, Superintendent
Improved Risks Department,
Phoenix Assurance Company, Ltd.

Library, 5.15

March 19th—(Thursday)

“The Croton Water Shed Supply to the City
of New York. As it was, as it is, and
as it will be”

Mr. Thurston C. Cuyler, Resident Engineer
Department of Water Supply in the
Croton Water Shed

New York Board Room
123 William Street
5.15

March 24th—

(Dinner and Meeting, Aldine Club, 200 Fifth Ave.)

We have the honor to announce that

Mr. David Rumsey,

Vice-President of the Continental Insurance Company,
has accepted the invitation of the Society to be its guest and speaker on
that occasion, and the subject of his address will be

“The State and the Insurance Company”

See enclosed card.

JOTTINGS

The Executive Committee has decided that all persons joining the Society on or before March 24th, 1914, and paying their annual dues and initiation fee, will be permitted to attend the dinner and meeting on that date without extra charge.

The Accountancy Branch will hold no meeting in March, 1914, but instead plans to close its season with a dinner and meeting to be held sometime in April, and full particulars of which will be furnished later. We should be glad to have the names of all interested in the proposed meeting.

WANTED: Annual reports International Association of Fire Engineers for years 1873, 1876 and 1877. Will some benevolent soul kindly respond!

Just to show you that our library is really and truly USED, we attach a list of the books that were borrowed in one day:

Post Magazine Almanac,
The American Office. Schulze.
Congdon on Average,
Social Insurance. Rubinow.
Live Articles on Special Hazards. Weekly Underwriter.
National Board Fire Underwriters. Proceedings 1913,
National Fire Protection Association. Proceedings 1903 and 1904,
Bulletin. Fire Insurance Club, Chicago,
Real Estate and Insurance. Hardy-Lindner.

If we had been cut off in the flower of our youth and beauty on the 8th of February, it would have been due to the promptness with which Messrs. W. E. Jones of the London Assurance and George A. MacLachlan of the New York Underwriters, paid their annual dues. They were the first of the February members to "come across" and the rapidity with which they performed the graceful feat, was astonishing and to put it mildly — gratifying.

NEW BOOKS

FEBRUARY, 1914

Principles and Practices of Marine Insurance. Frederick Templeman. 1912.
Model Fireproof Farmhouse or Country House. A. L. A. Himmelwright. 1913.

Casualty Inter-Insurance Exchanges. B. V. Hubbard. 1914.

Workmen's Compensation in Great Britain. Launcelot Packer. 1912.

New York Times Index. October-November-December, 1913.

Insurance Digest. G. A. Deitch. Vol. 26, 1913.

Crosby-Fiske Handbook of Fire Protection. Fifth edition, 1914.

Catskill Water Supply. Financial Report, December 31, 1913.

Insurance Institute of Liverpool. Transactions. 1909-1910.

Institute of Actuaries (Great Britain) Journal. January, 1914.

Actuarial Society of America. Transactions May and October, 1913.

Ohio Legislative Insurance Commission. Report, 1913-1914.

American Institute of Electrical Engineers. Year Book, 1914.

*National Association of Life Underwriters. Proceedings, 1912 and 1913.

North Dakota. Tenth Annual Insurance Report, 1912.

Texas. Thirty-eighth Annual Insurance Report, 1913.

Hine's Directory of Insurance Lawyers. January, 1914.

Fire Insurance Chart. Spectator, 1914.

New Jersey. Annual Report, Department of Labor, 1912. Rules and Regulations for Conducting Fire Drills and Organizing Fire Brigades

†L'Argus, Paris, France. August-December, 1913.

‡Various Files of Insurance Publications.

*Gift of Mr. Everett M. Ensign.

†Presented to library by Mr. George M. Shepley.

‡Presented to library by Mr. Herbert H. Ray.

FIRE PREVENTION

List of books, articles and pamphlets on file in the Library, and prepared in response to a request from a Western correspondent.

Prevention of Loss by Fire. Edward Atkinson. Pamphlet, 1900.

Fire Prevention and the Fire Chief. W. H. Bringham.
(Pacific Coast Association of Fire Chiefs, 1911.)

Simple Fire Prevention within reach of all. Alexander Brociner.
(City Life, May 24, 1912.)

Women and Fire Prevention. Alexander Brociner.
(American Club Woman. September, 1912.)

Fire Prevention. G. E. Bruen.
(International Association of Fire Engineers, 1909).

Fire Prevention. Charles L. Case.
(National Association of Manufacturers, 1910).

Fire Prevention.
(Report Committee on Fire Prevention, Boston Chamber of Commerce, September, 1911).

Fire Prevention.
(Chamber of Commerce, Rochester, N. Y.) Pamphlet, 1911.

Fire Prevention.
(Syllabus for Public Instruction in Fire Prevention. Cincinnati Chamber of Commerce.) Pamphlet, 1912.

Fire Prevention. Edward F. Croker. 1912, Illustrated.

Fire Prevention.
Handbook of Fire Protection. E. U. Crosby and H. A. Fiske, 1914.

Fire Prevention. F. W. Fitzpatrick. ("Building code.") 1913.

Fire Prevention. H. Walter Forster.
(American Warehousemen's Association, 1912.)

Fire Prevention and Fire Protection. J. K. Freitag, 1912.

Fire Prevention—Continued

Fire Prevention and Fire Protection for Manufacturing Plants.

F. M. Griswold. Pamphlet, 1911.

Fire Prevention. John M. Hughes. Pamphlet, 1912.

Fire Prevention.

Library of Congress. Select list of references on. 1912.

Fire Prevention. Peter McKeon, 1912.

Brief on Fire Prevention and Public Safety. R. P. Miller. Pamphlet, 1912.

Fire Prevention. Mamie Muldoon.

(For use in public schools. Approved and issued by Deputy State Fire Commissioner, Nebraska, 1913.)

Fire Prevention. New York Credit Men's Association. Pamphlet, 1912.

(Suggestions. What to do before a fire and what to do after a fire.)

Fire Prevention. Important Suggestions.

(New York State Fire Marshal. Annual reports.)

Fire Prevention. Harrison Parkman.

(Bulletin for use in Public Schools, Kansas, prepared by State Fire Marshal, 1913.)

Fire Prevention. H. F. J. Porter.

(The Survey, January, 1911.)

Fire Prevention. Edwin O. Torbohm.

(Insurance Engineering, December, 1911.)

Fire Prevention and Foreign Laws. Robert Stone.

(Kansas State Fire Prevention Association.)

Fire Prevention Campaign. Thomas R. Weddell.

(Fire Insurance Club of Chicago, October, 1911.)

Fire Prevention Day. Henry S. Dunn.

(Fire Underwriters Association of Pacific, 1912.)

Fire Prevention in Factories. Frank B. Sanborn.

(Boston Society of Civil Engineers, June, 1906.)

Fire Prevention in Factories. Ira G. Hoagland.

(Insurance Engineering, July, 1912.)

Fire Prevention History. H. A. Glassford.

(Fire Underwriters' Association of Northwest, 1878.)

Fire Prevention—Continued

- Fire! Prevention and Extinguishing. John S. Braidwood. 1913.
- Fire Prevention by the Companies. Henry L. Phillips.
(Business of Insurance.)
- Fire Prevention by the Public. Edward F. Croker.
(Business of Insurance.)
- Fire Prevention Law from the Architect's Point of View. E. D. Litchfield.
(Real Estate Magazine, September, 1912.)
- Fire Prevention Text Books.
(Prepared for use by State Fire Marshal, Ohio, for use in Primary and Grammar Schools, 1912.)
- Fire Prevention. Responsibility for prevention and extinction. Walter E. Gates.
(Insurance Institute of New South Wales. Journal, 1910.)
- Fire Prevention. Hints for householders, merchants and manufacturers.
(Hartford Fire Insurance Company. Pamphlet, 1909.)
- Fire Prevention. Omaha, Nebraska.
(Rules and Regulations, Board of Fire and Police Commissioners. Pamphlet, 1910.)
- Fire Prevention Text Book. A. V. Johnson.
(For use in Public Schools of Nebraska. Pamphlet, 1910.)
- Fire Prevention Text Book. C. A. Randall.
(For use in Public Schools of Nebraska. Pamphlet.)
- Fire Prevention. Select list of References.
(Special libraries. February, 1913.)
- Fire Prevention and Building Inspection by Members of Fire Department.
Fred. Brodbeck.
(International Association of Fire Engineers. 1912.)
- Fire Prevention from a Municipal Point of View. Dennis Cash
(Fire Underwriters' Association, Northwest, 1912.)

THE LIBRARY

of this Society is situated at Room 804, 84 William Street. It is open each weekday from nine-thirty to five, with the exception of Saturday, when it closes at one o'clock. Members of the Society may borrow books for a period of two weeks. Visitors are heartily welcomed and the facilities of the LIBRARY placed at their command. We have over 6,800 books and pamphlets on Fire, Marine, Casualty and Life Insurance; also State insurance reports and laws, and the annual reports of many organizations identified directly or otherwise with the insurance business.

We make a strong plea to everyone interested in the advancement of Insurance Libraries! Send us any books you do not want! Many of our sets are unfortunately incomplete and the very book you are about to throw away, may be the volume we are most in need of.

One thing more! If you have never visited our Library do so at your earliest opportunity, and you will be surprised at the equipment we have ready to do you service.

Telephone: John 1778.

“Maximum and Minimum
Are two twin mates.
Max makes out the loss claims,
And Min she makes the rates.”

—J. L. Cunningham.

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Some Evolutionary Developments in Life Insurance.

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The subject assigned to me, of Life Insurance, is too broad, and I take the liberty of confining myself to an informal discussion of a few phases of it. You will be relieved to know at once that I shall omit statistics and mathematical demonstrations. Nor shall I venture to instruct: I would if possible rather entertain by leading you into certain by-ways of insurance thought. I assume your general acquaintance with Life Insurance as you see it practiced, and shall consider not so much what it is as what started it and by what processes it developed. Evolution has played here its usual part. The science itself, the companies, the contracts, the agency operations of to-day, are all matters of gradual consecutive growth. They are best understood and their future best foreseen if we know from what seeds they have sprung.

No mere recital of figures and facts can do this, and time lets me merely hint at the story of Life Insurance. Rightly told, it would be not a treatise but a romance, a series of pictures full of color, a brilliant brocade in which jewels scintillate, a tapestry in which lordly figures hunt or battle. To review it would be to enter the world's most dramatic eras; the men to figure in it are not obscure but the most picturesque of their times, leaders of thought and action; Roman praetors, mediæval banker-princes, steel-clad Spanish captains, fur-robed Dutch burghers, Jewish usurers in gabardines, thrifty English merchants, royal astronomers, statesmen, philanthropists, modern executives who think in millions. Mingled with the story would be the tarry smell of London docks, the murmur of Boards of Trade, the heavy oratory of Parliamentary speeches on the Public Debt; we would see cut-throats dispose of men insured by gamblers, watch bubble companies burst and panics spread. And all this to know a little more of a business which to-day is eminently staid, respectable and law-abiding, and seldom suspected of kinship with the romantic. Our attention is so

generally called to modern manifestations of Life Insurance, that we regard it as altogether new. It has taken two thousand years to develop it. To appreciate this development we must know history, for it starts with the matured power of the Roman Republic and follows the Empire's wonderful system of jurisprudence; passes through the long terrors of Holland's wars, the reconstruction under England's last revolution, and in the past century is an epitome of the progress of the United States. It represents historical extremes. Its nomenclature betrays its remote origin, as you see from such Latin words as insurance, premium, annuity, policy, contract, interest, reserve. Its practice is intensely modern. It is intimately interwoven with world-movements of the highest order, nor is there any exaggeration in saying that in its growth it has helped human liberty and civilization.

This long preamble is not without purpose. It aims to brush away some widespread misconceptions. We think of Life Insurance as being dry as dust; a dull prosaic matter of formulæ and bespectacled actuaries and insistent agents and periodic drains upon our pocketbooks. It is a popular mystery. There is no commodity or security so widely bought, about which the purchasers know so little as Life Insurance; nor is there any business or profession whose followers study it so superficially; and this mystery and ignorance are exasperating because needless. If most of us were asked how Life Insurance originated we would answer that it was either as a scheme for money-making or a deliberately worked out plan for securing indemnity at death. Nothing of the sort; it simply grew by natural methods out of a strange variety of origins. It began in legislation about wills, developed because of the emptiness of State exchequers after devastating wars, and its science starts with gambling experiments upon the Laws of Chance.

ORIGIN OF LIFE INSURANCE.

Let us now examine briefly some of the processes by which from such curious beginnings it happened that by what seems an anomaly Life Insurance became what it is to-day. Let us see what made it slow in starting, what suggested it, what forces combined to perfect it.

All insurance is alike in being a remedy against losses that are certain or possible. It is a device for distributing among a community the losses of a few people so that what would

crush the individual will be felt lightly by the many. No form of insurance is desired or is possible among any but civilized nations, for the very idea pre-supposes forethought and fraternal co-operation; and nothing becomes the object of insurance until it assumes a definite economic value or until the hazard is so recognized that men are willing to pay a small certain sum lest they lose perhaps a large sum. In certain particulars Life Insurance is like other branches, but it differs from all others in one feature, it deals not with the possible or probable but with the certain. A house *may* burn, a ship *may* sink, an accident *may* cripple, a trust *may* be betrayed; but death, some time or other is sure to come. The uncertainty, the problem, is not will it come, but when. A life insurance contract entered into and kept in force long enough will certainly become a claim in full. Now from this certainty springs the exactness of the science of Life Insurance. Other lines of underwriting call for judgment; for good guessing, if you will; and they are subject to radical changes from time to time. One decade calls for different fire rates from the preceding decade, now requiring high rates, now permitting a reduction; but Life Insurance alone keeps a steady course. It dares not deviate from the rules of its mortality tables; it acts not so much by what it thinks as by what it knows. To know, to determine what are the cold facts, what are the vital laws, is the constant effort of Life Insurance. But these laws are so complex, they are made up of so many obscure factors that only in comparatively recent years have they begun to emerge from scientific guessing into a more and more stable generalization.

The inherent difficulties just outlined were not the only things which delayed the issuing of life insurance. There was no demand for it.

The ancient world did not concern itself with the economic loss caused by death. Life was cheap. Death, and early death at that, was the commonest of accepted facts. Incessant wars, frequent pestilences, lack of sanitation allowed few men to reach advanced age. No wonder old men were then venerated; they were curios. There was no Red Cross corps in battle then; the wounded died and there were few prisoners. The average length of life in the 16th century was 18 to 20 years; it is now between 40 and 50; it is twice what it was even a century ago. Moreover in ancient times few men produced wealth or had a measurable money value. More men destroyed than built up. Wants were simple; wives and children were often the wealth-

producers, and the death of the warrior-husband was felt more as a loss of defense than as a loss of income. No demand for Life Insurance could arise until these conditions changed. Nor was the loss by fire in ancient times so common as to suggest indemnity; houses were stone or clay, and fire was little used. Therefore it naturally happened that the first insurance effected should be in connection with a hazard that was frequent and terrifying and where the loss was complete and readily calculable as to amount. That was marine insurance. Demosthenes tells how Greek merchants going on a voyage would borrow a sum of money which was not to be repaid if the ship were lost, but was to be repaid with a large additional sum if the ship came back in safety. This additional sum, partly interest, was also partly premium. The nearest approach to Life Insurance among the ancients was in various Roman Collegia, like that of Diana and Antinous, which provided funeral expenses only for their members.

The origin of Life Insurance was different from that of Marine. It started not with demand for protection but with its direct antithesis, the annuity. Roughly speaking, Life Insurance is a contract to pay a certain sum at death; an annuity agrees to pay a certain income for life (or a fixed term of years) and nothing at death. Annuities were 1600 years old before the first life policy was written. Yet from them life insurance developed directly, though by no means entirely. It is a freakish growth, this of one thing from its converse. Let me outline it, as one of the Curiosities of Finance.

ORIGIN OF ANNUITIES.

The wealth of Rome gave rise to a highly organized system of laws affecting property. The Senate concluded that men were abusing the right to bequeath estates to certain beneficiaries, and so passed the Falcidian Law. This forbade a testator's giving more than three-fourths of his property in specific legacies, so that in consequence at least one-fourth had to go to his legal representatives. Now if a man left a certain life estate to his wife it was necessary, in order to find whether the law was complied with, to determine what was the immediate value of the incomes, the annuities, which the wife would presumably enjoy. The new thing was not the annuity but the need to say what was its value. To fix this was at first pure guess work. They would say, without any reference to age, that it was worth

some seven, eight, or ten incomes. Later, by the rule of Aemilius Macer they assumed that anyone aged 30 had a good chance to live to age 60, and no one lived beyond that. Interest was not taken into consideration.

About 225 A.D. the great praetorian prefect and jurist, Ulpian, whose work makes one-third of Justinian's Digest, improved this crude system of valuation by tables of mortality. Then for eleven centuries there was little progress and the matter is almost lost in the gloom of the Dark Ages. By the 14th century annuities had developed into a common and recognized method of investment. Here and there we find individuals or Gilds purchasing them; or a town would borrow money by paying double interest while the lender lived, but never repaying the principal. Thus at the end of the 13th century Lübeck shows numerous contracts on a fixed ratio of 1:10 Nüremberg, 1:9 without regard to age; thus they received about 10 per cent. a year for the life of the annuitant. On the contrary age was considered by Hanover, Nordhausen, Augsburg and Breslau, which received a ratio of from 1 in 4 to 1 in 10 according to age. The statement is often made that annuities were invented simply to avoid the stringent laws against usury; but though these laws doubtless increased the use of the annuity, "the contract was already in existence before the endeavor was really seriously made to enforce its prohibition."

And now Holland comes into the story. She fought her wars with Philip and his successors; the bloodiest, longest struggle for liberty that the world ever knew, the precursor of England's Revolutions and a most potent help to our own American liberty of to-day. Dutch commerce had diminished, but survived. Its people were frugal and its burghers shrewd. With the continuance of war and the growing scarcity of money, nothing could tempt the hoardings out of cellars and hidden vaults but annuities. They evidence a canny form of patriotism. To a certain extent annuities helped to drive the armies of Spain from the Low Countries. For any such help, all honor to them! When the wars were over and Holland reorganized her finances, her fiscal system was based upon annuities; nor is that unique, because the systems of both France and England are to-day so based, Consols and Rentes being nothing but perpetual annuities. In 1671 Jan de Witt, Grand Pensioner, undertook to determine what annuities the State of Holland could safely pay, and he is the first man who attempted to de-

termine by mathematical principles what was the value of a life annuity. His assumed limit of life was 80.

ANNUITIES IN ENGLAND.

A further change took place. Annuities proved good investments. Men lived longer than expected, and those who risked money on them (themselves or others) were pleased. Dutch bankers with money to invest bought annuities on their own lives, then on the lives of their families, and finally on outsiders. They hunted for young, healthy people. They even went to England for good cases. They found women longer-lived than men, and the English peasant woman longest-lived of all. As an eminent British jurist long after said, "Women annuitants may wither but they never die." To-day annuitants live longer than insured people, and women annuitants longest of all.

The Dutch idea spread to England. When a Prince of Orange became William III. he brought his country's financial methods with him. The Bank of England shows the effects of it, and in many Governmental Annuity schemes England proved by the loss of millions of pounds that to be liberal in selling annuities is a dangerous thing. These transactions grew popular between individuals; one purchasings, the other selling the annuity. But the premature death of the annuitants proved such a disturber of the security that some men undertook to hedge. The annuitant who had sunk a thousand pounds on his own life or that of some third party saw that this life was worth a thousand pounds. He then made a contract with perhaps another party who would agree to pay a thousand pounds when death should wipe out this property. And so at last the economic value of life was distinctly and accurately recognized.

DEMAND FOR INSURANCE.

This is in brief one of the processes of the birth of Life Insurance. An eminent actuary to whom I am indebted for some of the above ideas, but whose historical references contain obvious inaccuracies, assigns to annuities the controlling part in this development. My own opinion is that this is hardly fair, because a life contract was issued in London nearly a hundred years before de Witt and his table. Annuities were certainly, however, one of the several main causes. I give the sketch at so much length because no one can quite catch the

spirit of Life Insurance without appreciating the human interest attaching to annuities; and in the second place Life Insurance formulæ are based upon them. To find what charge must be paid for insurance we must first know the value of the corresponding annuity on that life. Again, as every reader knows, literature is full of annuity references. The most pathetic passage in English prose fiction is where Thackeray tells of Colonel Newcome's death. That gallant gentleman would never have uttered his "Adsum" in poverty had he not sold his annuity. And still another reason has led me to treat thus of annuities because by a most curious evolution Life Insurance which originated in annuities is now swinging back to them. The circle has turned to its point of beginning. The tendency of to-day is steadily towards policies providing for the payment at death of some form or other of annuities instead of a lump sum of money.

But at the same time that annuities were coming into favor, it is certain that men were also, from reasons quite independent, groping after life insurance. Other lines had grown common. Marine insurance was written in Belgium about the year 1300, and is spoken of in the time of Elizabeth as a generally recognized precaution. The fire of London in 1666 was the prime stimulus to fire insurance. The first record of a life insurance contract, so far as I know, is of one made in 1583, by which several London citizens insured a man named Gibson for nearly \$2000. The rate was 8 per cent., about \$160, for one year only. It was issued early in June, and late in May of the following year the insured died. The insurers promptly refused to pay, upon the ground that Gibson had survived 12 lunar months; but a stern court compelled payment. This was a sporadic case. The times were not ready.

MORTALITY TABLES.

There could be no system without mortality tables. And these, it should be noted, were not originally compiled to make insurance possible, but for a variety of reasons, among these being the prevalence of card playing, the study of pure chance and then the study of the chance of life and death. These tables were first taken from public records, the earliest being those of births, deaths and marriages in Geneva, Switzerland, continuous to date from 1549. It was Breslau, in Silesia, however, whose records formed the basis of all early life insurance,

because they alone showed the ages of the dead. From these, Halley, the eminent English astronomer, constructed in 1693 the Breslau Table of Mortality. This was in a few years followed by the first association for life insurance: "The Society of Assurance for Widows and Orphans." Other concerns followed; entrance fees were charged, promoters made money out of them, the plans were faulty, speculation was common, and many insurance funds passed into the colossal failures of the South Sea Company and the Mississippi Bubble. Some fifty life insurance schemes failed. They generally gave insurance for only one year at a time, the premiums were not graded according to age, and no adequate sinking fund was provided. It was not till 1762 that these defects were remedied, and the Equitable of London started. It is still in existence, largely due to the fact that, not knowing what it ought to charge, it guessed on the safe side, and charged too much, its mortality proving less by one-third than anticipated. Since then there has been a steady progress in the collection of vital statistics, first from cities, then from the experience of companies, until now rates are made from tables based upon actual experience with selected lives chosen from selected occupations. I shall not attempt to describe these tables or the method of calculating rates, but let me assure you that the elementary rates at least are not the formidable matter they are usually supposed to be. We find that out of 100,000 people of a given age so many die in a year. Nothing could be simpler than to say how much each one of this 100,000 must pay to give \$1000 insurance for each one who dies. Each year the cost increases. So the simplest scientific policy would be one requiring a steadily increasing charge up to age 95, when the rate would be \$970.87 per \$1000. This would be yearly term insurance. In other words a whole life policy is a term policy for life. But this plan of increasing cost suits few people. Therefore the actuaries commute these increasing charges into a level rate, lasting for life. The charge is thus at first more than necessary and the overcharge accumulates; after certain years the losses equal the charge; and after that the losses exceed the charge and finally consume the accumulated overpayments. That is an ordinary life policy. From it follows the limited payment, which is only a further commutation into say 20 payments of the equivalent life-long payments. The endowment is not calculated as usually supposed, but is singularly like certain chemical compounds in being quite different in appearance from either constituent, as when two gases

form water. Consider a policy paying \$1000 if you die, nothing if you live 20 years; you would not be attracted by it: consider another policy paying nothing if you die within 20 years, \$1000 if you live; you would not buy it at any price. Combine these, however, and the result is a 20 Year Endowment, one of the best and most popular policies.

INTEREST.

The development of the interest factor is worth noting. As I have already mentioned, early calculations did not include interest. The premium rates were therefore often needlessly high. If we assume that for safety more is to be charged in early years than is then necessary for death losses, and if these overpayments are to be invested against the time when they will certainly become a claim, we must allow for compound interest; for by so much we can reduce our rates. Here the early assumptions as to what percentage of interest would be earned were too high, $4\frac{1}{2}$ or more. The growth of funds, the resulting difficulty of placing them, the drop in interest rates, have all combined to make the prevailing rates assumed $3\frac{1}{2}$ or 3 per cent. And when we speak of a 3 per cent. Reserve Company we mean one which if it earns 3 per cent. upon its investments, will meet all its obligations at maturity. Its Reserve equals the present discounted value of all its contracts.

And because of the interest element (please note that I am following the operation of causes) and because of the overcharge for safety we have dividends so-called. A company saves on its mortality, saves on its expense loading, and earns more than its reserve requirement. The first two sources are fairly constant under fixed management; their variation is negligible compared with the possibilities of variation in interest; for interest rates move by great laws in long uncontrollable swings of a pendulum from high to low and high again. And as under certain contracts a policy issued now may not be entirely paid out for 100 years, the item of compound interest is of profound importance, not only in reference to dividends but as to security, and the supreme effort of insurance administration is to obtain stability of investment yield.

LIFE INSURANCE IN THE UNITED STATES.

It took Europe to originate life insurance, and the United States to develop it. Our rapid growth in population and wealth made this possible; and we are an impulsive people, we rate our

value highly, and optimism is the great buyer of life insurance. The system has proved peculiarly adapted to the development of natural resources. It has been our great bank of savings, a reservoir for capital that has aided all sorts of worthy enterprises. Europe and Japan carry 12 billions of all life insurance; the United States over 25 billions, including assessment. In 1905 there were in this country 112 regular companies; in 1913, 250, with 19 billions in force. These have assets of $4\frac{1}{2}$ billions, and distribute $1/10$ of them yearly to policy holders. And still we are under-insured. Probably 82 per cent. of our combustible property is insured against fire; but only 7 per cent. of the estimated value of American lives is covered. Yet it is not inconsistent to say we have too many companies, 128 of them report a volume less than 6 millions each. Many must fail or combine with stronger ones; and here again evolutionary elimination must operate. Meanwhile legislation hampers the strong companies. It says "Life Insurance is a good thing, but you must not have too much of it." And the strong companies, limited in volume, take the highly preferred risks, and decline thousands of border-line cases who need insurance, and whose need is of deep economic concern to the State. All revolutions go too far. Reaction as to this feature has begun.

THE CONTRACT.

In the contract of to-day every word has its history. Many have been necessitated by crimes; for the story of insurance is the story of the frauds against it. Some features grew out of competition, some from legislation. Life Insurance has felt its way along, finding here danger, there a preventive; here obstacles, there help; adapting itself to popular needs and fancies, making errors and correcting them. There has been incessant struggle between safety and attractive liberality. The net result to-day as to Cash and Loan Values errs on the liberal side. \$587,000,000 is loaned in this country upon policies. This is a menace, is being recognized and will be curbed by increasing the interest charge and requiring longer notice.

In a book which I had not seen until after this article was nearly written, I find the following:

"The last word in the Evolution of the Policy is that in its beginning the gambler was the man who took it, and that now the gambler is the man who refuses it."

This exactly expresses the general tendency. The companies seem to have but one aim now: to give the public what

it wants, and as much as can by any possibility be given without danger. For example the disability clause, (under which the policy is paid-up or even matures upon physical disability), originating in Germany, and scarcely known here ten years ago, is now becoming general and offers statistics of its own. Another development is clearness of contract. But there is no development more curious than that strange circle of evolution already alluded to by which policies are being sold because of their annuity yields of various kinds. This comes from the appalling losses by widows of insurance monies paid to them. Some one well says:

"Give a woman \$50,000, and she will be poor before she dies.

Give her \$2,000 a year, and she'll be out of money before the year ends.

But give her \$100 a month, in advance, and she knows just what to do with it."

THE AGENT.

There is, to my mind, no evolution in Life Insurance more interesting than that of the agent. For a long while after the business started he did not exist. He appears then either as the zealous expounder of a philanthropic theory or as the impecunious solicitor or both. Life Insurance was once the last resort of the chronic failure; and it was simply ideal for the crook. With the old mad racing after business, with unlimited opportunities for mixing guarantees and estimates, with every encouragement to deceive by shuffling obscure policies, and with a payment for service according to volume and not in the least according to quality, it is no wonder that the genus developed many undesirable species. The agent is good now because he has to be, and because it pays. But not to speak cynically, the agent of to-day is the survival of the best. Take the successful agents now in this country, they are picked men, educated, hard workers, well trained; honest men, ambitious, sincerely desirous of serving their clients. The legislation of recent years makes the compensation of sub-agents higher and surer than formerly; the general agent is underpaid for his capital and administrative work. They all consult more than formerly the interests of the insured. And partly because they have had to fight together against extinction and so become friends, and partly because an age of fraud has been followed by an age of honesty, the

rivalry between agents of different companies has greatly diminished. The old-style bigot is out of date. Nor is this change confined to the status existing among life agents alone. There is a growing tendency to mingle in other insurance lines than life. There is, quite properly, an inherent propensity for men in any given line of insurance to consider that one the greatest of all and to look down upon other lines. But, beginning some nine years ago, many life salesmen were tempted into casualty, and fire and liability, and they keep it up. For myself, I favor this. I value concentration and specialization, but I am not with those who scorn other lines than life and seek to prohibit general brokers from entering Life Insurance. The objectors cannot stem the current; it is too strong. Out of agitation and publicity and general economic conditions, and, here in New York, out of certain metropolitan conditions, the mingling of agents, the alliance of different branches of insurance, has come to stay and to develop still more broadly; and as I meet this Society and respect its fraternal aims, I for one am glad that among the many evolutions of the profession this one also has taken place and in my own generation. We life insurance men, who boast of the superior position of our business as being the pursuit of a mathematical science of venerable antiquity, know little of either the science or its history; and we meet none of the complex every-day problems of the men who upon their individual judgment alone must make rates involving large capital. What we should do is to study more and, if you permit us, practice more the work you are engaged in. And we ought to invite you most cordially to help us in our own work. For we believe it to be the work of high aims and real results. We believe, that as one writer says, Life Insurance "has done more than all gifts of impulsive charity to foster a sense of human brotherhood and of common interests. It has done more than all repressive legislation to destroy the gambling spirit." We like the sentiment which differentiates life insurance. We like the human element of the hazard and the play we must make upon hearts. We think it all calls for good qualities and develops character. And when any such features of our work tempt men from other insurance lines to give it incidental attention, we life insurance men ought to be and are ready to offer you a most hearty welcome.



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